



DRA

*Division of Ratepayer Advocates
California Public Utilities Commission*

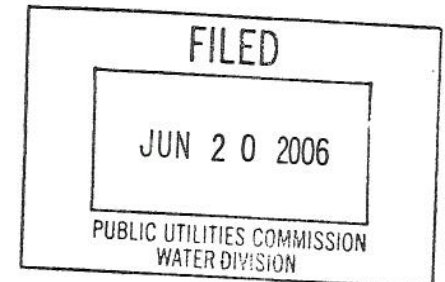
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June 20, 2006

Kevin Coughlan, Director Water Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 945102



Re: Protest to Apple Valley Water Company's Advice Letter 135-W

Dear Mr. Coughlan:

Division of Ratepayer Advocates (DRA) files this protest to Apple Valley Ranchos Water Company's (AVR) Advice Letter 135-W requesting authority to extend its service area to serve various parties, including some residential and commercial developments.

The Water Supply Questionnaire and other supporting documents submitted by AVR give the impression that AVR has unlimited source of water supply available to serve its existing customers as well as new customers in the new service areas. However, a preliminary review of the Advice Letter indicates that it is deficient in several aspects.

Ground water is the only source of water supply available to AVR. The water basin from where AVR obtains its water supply was adjudicated about 10 years ago. Due to over pumping, AVR has not been allowed to pump all of its adjudicated water rights. In its last General Rate Case (GRC), AVR alleged that its existing water rights were not sufficient so it needed to lease water rights from other purveyors and also paid penalties for over pumping its adjudicated water rights.

AVR has not provided any supporting information or documentation justifying that it has obtained adequate water rights to serve its existing as well as the new customers. DRA believes that this and all subsequent Advice Letter filings for service area extension should at least contain the following information:

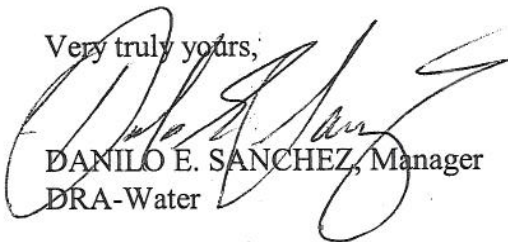
1. Total water supply AVR needs per year in acre-feet to serve its existing customers. This should include system water losses based on a three year average.
2. Total water supply AVR will need to serve its existing and new customers.

3. Total water rights AVR owns. How much of this water can AVR actually pump from ground without paying penalty?
4. How AVR plans to meet the shortcomings in the water supply?
5. If answer to question 4 above includes leased water, provide documentations showing availability of such water on a long term basis and its cost to AVR's ratepayers.
6. If answer to question 4 above includes some water for which AVR plans to pay penalties, provide information as to what AVR is doing to obtain additional sources of water to avoid penalties in the future. What will be the impact of pay penalties on its current base of ratepayers?
7. Will AVR require the owners of the properties for which service area extension is requested to convey some water rights? If so, provide documentation and supporting information showing the calculation of amount of water rights needed. Indicate whether the water rights were computed on the face value or adjusted for pumping restrictions imposed by the water master?
8. Provide computations showing whether the existing customers will benefit or subsidize the cost of water needed to serve new customers.
9. If the water pumped under AVR's allocated water rights is not adequate to meet the needs of its existing customers, what AVR is doing to obtain reliable water rights to meet the long term needs?

For the concerns listed above, DRA believes that the requested extension of service area, if approved, without a formal proceeding would deprive all interested parties of due process and unfairly expose customers to more expensive water and less than normal water service. Adding new customers, without any assurance of sufficient water supply in an adjudicated basin could result in deterioration of service to all customers. For the foregoing reasons, DRA recommends that the Water Division reject Advice Letter 135-W and require AVR to file a formal application as soon as possible to address AVR's long term water situation. The water supply issues are complex and should not be addressed in an advice letter.

If you have any further question, please feel free to contact me at (415) 703-2771.

Very truly yours,



DANILO E. SANCHEZ, Manager
DRA-Water

CC: Apple Valley Ranchos Water Company
Fred Curry, Manager Water Division